

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Lesedi Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Emphasis of matters

3. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

4. With reference to note 42 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of the matters cannot presently be determined and no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

5. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered in the financial statements of Lesedi Local Municipality for the year ended 30 June 2017.

Material losses

6. As disclosed in note 56 to the financial statements, material electricity losses amounting to R20 460 206 (2015-16: R29 754 908) were incurred, which represent 13% (2015-16: 19%) of total electricity purchased.

Material impairments

7. As disclosed in note 11 to the financial statements, material impairments to the amount of R452 191 157 (2015-16: R362 519 301) representing 79% (2015-16: 80%) of consumer debtors were incurred, as the recoverability of these amounts is doubtful.

Other matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure note

9. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priority	Pages in the annual performance report
KPA 2 - Basic service delivery	x – x
KPA 3 - Local and economic development	x – x
KPA 4 - Financial viability and management	x – x

17. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the usefulness and reliability of the selected key performance areas are as follows:

KPA 2 – Basic service delivery

% completion of Kwazenzele Sewer Plant upgraded in quarter 2, 3 & 4 within the available budget.

19. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % completion of Kwazenzele Sewer Plant upgraded in quarter 2, 3 & 4 within the available budget. This was due to inadequacy of the progress reports provided by management. I was unable to confirm the reported achievement by alternative means.

Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 50%.

% completion of the 5 Mega litre reservoir constructed at Endicott in quarter 1& 2

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % completion of the 5 Mega litre reservoir constructed at Endicott in quarter 1& 2 within the available budget. This was due to inadequacy of the progress reports provided by management. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 90%.

% completion of cemeteries upgraded at Ekuthuleni and Ekuphumuleni in each quarter as per the project plan

21. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % completion of cemeteries upgraded at Ekuthuleni and Ekuphumuleni in each quarter as per the project plan. The numerator and denominator was not reperformable as this was a once off event. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 55%.

% implementation of activities as per the Early Childhood Development (ECD) implementation plan per quarter.

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % implementation of activities as per the Early Childhood Development (ECD) implementation plan per quarter. The numerator and denominator was not reperformable as this was a once off event. Consequently, I was unable to determine whether any adjustments were required to the reported achievement 100%.

% of amenity service requests attended to as per the applications received in each quarter.

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of % of amenity service requests attended to as per the applications received in each quarter. The numerator and denominator was not reperformable as this was a once off event. Consequently, I was unable to determine whether any adjustments were required to the reported achievement 87.5%.

KPA 3 – Local economic development

A human resource development strategy approved by Senior Management Team (SMT) at the end of quarter 4.

24. The reported achievement for the target of the completion of the strategy was misstated as the evidence provided indicated 1 and not 0 as reported.

Number of students who have been assisted with registration fees in quarter 3.

25. The reported achievement for the target of the number of students assisted with registration fees was misstated as the evidence provided indicated 16 and not 19 as reported.

Number of job opportunities created through EPWP initiatives per quarter.

26. The reported achievement for the target of the number of job opportunities created through EPWP initiatives was misstated as the evidence provided indicated 109 and not 455 as reported.

KPA 4 – Financial viability and management

% of total rental stock lease agreements reviewed and renewed before expiry in each quarter.

The reported achievement for the target of the percentage of rental stock lease agreements reviewed and renewed before expiry of each quarter was misstated as the evidence provided indicated 22% and not 81.83% as reported.

% of total rental stock lease agreements reviewed and renewed before expiry in each quarter.

27. Number of lease agreements renewed on time (numerator) and the lease agreements due for renewal (denominator) per rental stock schedule do not agree to the actual number of lease agreements renewed on time and those due for renewal.

% of occupational certificates issued by LEDP in comparison with the approved applications.

28. The reported achievement for the target of the percentage of occupational certificates issued by LEDP in comparison with the approved applications of occupational certificates issued was misstated as evidence indicated 100% not 77% as reported.

Report on the audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

30. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue, employee benefits, the cash flow statement and certain disclosure notes to the financial statements identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management (SCM) regulation 13(c).
33. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
34. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
35. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and Treasury Regulations 16A6.3(b). Similar non-compliance was also reported in the prior year.
36. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
37. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Expenditure management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Effective steps were not taken to prevent irregular expenditure amounting to R37 278 095 as disclosed in note 50 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviations from the normal procurement process.

Consequence management

40. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control deficiencies

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

42. The accounting officer did not exercise adequate oversight regarding financial and performance reporting and compliance with certain laws and regulations.

Financial and performance management

43. Management did not have effective monitoring controls in place to ensure that the financial statements and performance reports were supported by complete, relevant and accurate information.
44. Management did not adequately review and monitor compliance with applicable laws and regulation.

Other reports

45. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
46. The President of the Republic of South Africa signed a Proclamation No.R.25 of 2017 in terms of the Special Investigations Unit (SIU) and Special Tribunals Act, 1996, (Act no. 74 of 1996) authorised the SIU to investigate certain matters relating to the affairs of the municipality. This investigation was not finalised at the time of this report.
47. The municipality conducted an investigation into cash misappropriation by certain cashiers relating to previous year, the investigation has been finalised and a report issued.

Auditor - General

Johannesburg
30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Lesedi Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

